



# HOUSE BUDGET COMMITTEE

## Democratic Caucus

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June 1, 2006

## Republican Study Committee Budget Reveals the True Price of Republican Tax Agenda

### Overview

The Republican Study Committee (RSC) proposed an alternative to the House Republican fiscal year 2007 budget resolution earlier this month that cuts funding for Medicare and drastically shrinks the nation's commitment to homeland security, education, economic development, and other national priorities while cutting taxes by hundreds of billions of dollars. The RSC budget even cuts defense by \$108 billion below the President's request over five years.

The RSC budget is notable for deeper spending cuts than those contained in the Republican budget resolution (H. Con. Res. 376) ultimately approved by the House. The RSC budget, offered as an amendment in the nature of a substitute during floor consideration of the 2007 House budget resolution, calls for \$358 billion in cuts to mandatory spending programs over five years (2007-2011) through the expedited procedure known as reconciliation, which is immune from filibuster in the Senate and therefore can pass with a simple majority vote. The House-passed budget includes reconciled mandatory spending cuts of \$6.8 billion. In comparison, the President's 2007 budget cuts mandatory spending by \$51.7 billion over five years.

In addition to the steep cuts to mandatory programs, the RSC budget reduces funding for appropriated non-defense programs for 2007 by \$40.0 billion below the amount the Congressional Budget Office (CBO) estimates is necessary to maintain services at the 2006 level. The RSC funding for these programs is \$30.6 billion below the already inadequate levels in the budgets passed by the House and proposed by the President. Over five years, the RSC budget cuts funding for these programs by \$483 billion below the amount necessary to maintain current services.

The RSC budget calls for \$630 billion in tax cuts over five years, \$402 billion more than the House-passed budget. Like the President's budget and the House-passed budget, the RSC budget envisions making the 2001 and 2003 tax cuts permanent, which primarily benefits people already on the top rungs of the economic ladder. The RSC budget also assumes a permanent fix to the Alternative Minimum Tax, while the President's budget and House-passed budget provide

for only a one-year fix. The RSC budget also assumes extension of other expiring tax provisions. The RSC budget protects \$346 billion of the tax cuts through the reconciliation process, and it includes budget process enforcement rules that are oriented toward reducing spending without necessarily reducing deficits. The RSC budget amendment lost by a vote of 94-331.

## RSC Budget Cuts \$358 Billion from Mandatory Programs

The RSC budget includes reconciliation instructions that require eight committees to cut mandatory spending by \$31.9 billion in 2007 and by \$358 billion over five years, dwarfing the \$6.8 billion in reconciled cuts over five years in the House-passed budget. Nearly 90 percent of the reconciled cuts, \$313 billion over five years, are assigned to the Energy and Commerce and the Ways and Means committees.

<b>Reconciliation Instructions in the RSC and House-Passed Budgets</b>			
(outlays in billions of dollars)			
	<b>RSC Budget</b>		<b>House-Passed Budget</b>
	<u>2007</u>	<u>2007-2011</u>	<u>2007-2011</u>
Agriculture	-2.083	-29.116	-0.055
Armed Services	-0.052	-0.120	-0.175
Education and Workforce	-1.010	-7.470	-1.323
Energy and Commerce	-1.125	-91.697	0
Financial Services	0	0	-0.400
Government Reform	-0.140	-1.670	0
International Relations	0	0	-0.250
Judiciary	0	0	-0.500
Resources	0	-6.793	0
Transportation and Infrastructure	-0.032	-0.230	-0.050
Ways and Means	-27.457	-221.189	-4.000
<b>TOTAL</b>	<b>-31.899</b>	<b>-358.285</b>	<b>-6.753</b>

The reconciled cuts and other budget figures in the RSC budget floor amendment are consistent with the “Contract With America Renewed” budget document released by the RSC on March 8. The March document includes numerous “illustrative” cuts – including significant cuts in federal spending on health care for the elderly, disabled, low-income families, and children – to show how Congress might achieve the spending totals in the RSC budget. These “illustrative” cuts include:

- ***Converts Medicaid and the State Children’s Health Insurance Program (SCHIP) Into A Block Grant*** — The RSC March document cuts \$91.7 billion in spending over five

years by converting Medicaid and SCHIP into block grants to the states. Under the current system, states and the federal government share the cost of providing health care to low-income families and uninsured children. Under the RSC proposal, states would receive a fixed amount of funding from the federal government, regardless of growth in health care costs or rising enrollments. States would be left to either reduce spending on education, transportation, and other important state functions, or to cut beneficiaries and services from Medicaid in order to accommodate the reduced federal funding.

- ***Cuts \$218 Billion from Medicare*** — The RSC budget cuts Medicare spending by \$218 billion over five years. This cut is reflected in the RSC March document in a proposal to cap the program's annual spending. The March document proposes to cut spending by increasing Part B premiums, creating an income test for eligibility for the Part D prescription drug benefit, and raising beneficiary co-payments. The RSC March document also proposes setting payments to home health agencies, skilled nursing facilities, and hospitals at levels that will not keep pace with the rise in health care costs, thereby giving these providers a disincentive to serve Medicare patients as the Medicare reimbursement rate falls further behind private-sector rates. The RSC document does not include the savings that could be achieved by reducing overpayments to preferred provider organizations participating in the Medicare Advantage program.
- ***Cuts Farm Programs by One-Third*** — The RSC March document cuts commodity programs by \$20.4 billion over five years. CBO estimates that agricultural price supports and related programs will cost \$66.8 billion over the next five years under current law. A cut of \$20.4 billion – a whopping 30.6 percent – would devastate farms and undermine rural communities throughout America.
- ***Cuts Environmental Conservation*** — The RSC March document eliminates new enrollments in the Conservation Security Program, which rewards good conservation stewardship practices, and the Conservation Reserve Program, which provides payments to landowners for taking highly erodible or other environmentally sensitive land out of production for ten or more years. These provisions cut spending by \$7.5 billion over five years.

## **RSC Budget Cuts Defense \$108 Billion Below the President's Level**

Over five years, the RSC budget cuts Function 050, National Defense, by \$107.8 billion below the President's budget. For 2007, the RSC budget reflects a \$2.3 billion cut below the President's budget and includes a \$50 billion bridge fund for future war costs. Similar to the President's budget, the RSC budget provides no funding for war costs beyond 2007. However, unlike the President's budget, it would create a deficit-neutral reserve fund for war costs and other emergencies for 2008 and beyond. This fund would require offsets within the defense

budget and eliminate the need for future increases in defense spending through annual supplemental appropriations.

## **RSC Budget Cuts Appropriated Funding for Non-Defense Programs**

The RSC budget reduces funding for appropriated non-defense programs for 2007 by \$40.0 billion below the amount necessary to maintain services at the 2006 level, \$30.6 billion below the already inadequate levels in the House-passed budget and the President's budget. Over five years, the RSC budget cuts funding for appropriated non-defense programs by \$483 billion (22 percent) below the amount necessary to maintain current services – triple the size of the five-year cut in the House-passed budget. The RSC March document provides dozens of “illustrative” examples of how to achieve these funding cuts by eliminating dozens of programs and imposing steep cuts on others. The program eliminations occur across a broad swath of government functions, affecting activities as diverse as education, public health, environmental protection, affordable housing, and economic development.

Examples of program eliminations and reductions proposed by the RSC include:

- ***Eliminates Several Education Programs*** — The RSC March document cuts elementary and secondary education by \$43.6 billion over five years, primarily by eliminating or slashing programs designed to help those most in need. For example, the RSC cuts Title I (Education for the Disadvantaged) even though this cornerstone of the No Child Left Behind Act is already \$12.3 billion below the authorized level. It also eliminates the \$981 million 21st Century Community Learning Centers program that provides after-school learning opportunities to students in high-poverty or failing schools, and it eliminates the Education for Homeless Children and Youth program.
- ***Eliminates Community Development Block Grants (CDBG)*** — The RSC March document eliminates the CDBG program, which has provided billions of dollars to local communities to help them improve housing and economic conditions in low-income neighborhoods. CDBG formula grants and related set-aside programs were funded at a total of \$4.2 billion for 2006.
- ***Cuts Funding for the National Institutes of Health (NIH)*** — The RSC March document cuts NIH funding by ten percent below the 2006 enacted level.
- ***Cuts Housing Subsidies By More Than One-Third*** — The RSC March document cuts funding for Section 8 housing vouchers and project-based subsidies by \$7.0 billion below the 2006 enacted level, a cut of 34.6 percent. The RSC attempts to justify this cut by noting that “a certain number of vouchers and certificates are turned in each year by tenants who no longer need the assistance,” without acknowledging that there are

millions of low-income families on waiting lists for housing assistance vouchers.

- ***Eliminates the Low-Income Home Energy Assistance Program (LIHEAP)*** — The RSC March document eliminates the LIHEAP program, which helps low-income families pay their utility bills.
- ***Rejects Environmental Protection Needs*** — Over the 2007-2011 period, the RSC budget cuts appropriated environmental protection and conservation funding by \$23.8 billion below the amount needed to maintain current services. The RSC March document outlines the termination or reduction of numerous environmental programs. Most notable is the elimination of the Clean Water and Drinking Water State Revolving Funds, which received \$1.7 billion in 2006. Analyses by the Environmental Protection Agency, CBO, and other organizations have found that the nation's water systems need significant investments in infrastructure to ensure the provision of safe drinking water and to better protect public health.
- ***Cuts \$44 billion from Budget Functions that Fund Homeland Security*** — Over five years, the RSC budget cuts two budget functions that fund critical homeland security programs by \$43.9 billion below the level needed to maintain current services. These two budget functions – Function 450, Community and Regional Development; and Function 750, Administration of Justice – fund border patrol agents, port security grants, first responders, Byrne Justice Assistance Grants, Community Oriented Policing Services (COPS), and the State Criminal Alien Assistance Program. The RSC March document specifically targets Byrne Justice Assistance Grants and COPS by cutting \$1.2 billion from these programs over five years. These programs have been critical for enabling states and local governments to provide adequate law enforcement personnel, equipment, and training.
- ***Cuts Veterans Funding \$11 billion Over Five Years*** — The RSC budget cuts veterans discretionary programs, which consists mostly of veterans' health care programs, \$10.6 billion below the level CBO estimates is needed to maintain current services over five years. The RSC March document aims to match the President's budget total for veterans programs, but the President's budget total includes savings from increasing health care fees on Priority 7 and Priority 8 veterans. These fees would cost veterans, those who have already served and sacrificed for our country, \$439 million in 2007. Additionally, the RSC budget would require the House Veterans Affairs Committee to find an additional one percent cut from veterans programs. This one percent cut would come on top of the \$10.6 billion in cuts that are already included in the RSC budget.

## RSC Budget Includes Lopsided Budget Enforcement Rules

The RSC budget creates a budget enforcement system that is designed to cut spending, but not necessarily to cut deficits. The RSC system does this by creating strict rules governing spending while setting no rules governing tax cuts. The likely result of the RSC system could be an endless cycle of deficit-financed tax cuts, followed by cuts to federal programs in the name of reducing the deficit, which would then be used as justification for further cuts in taxes.

Highlights of the budget enforcement provisions in the RSC budget are as follows:

- ***Pay-As-You-Go Requirement for Spending But Not Taxes*** — The RSC plan requires that any legislation affecting mandatory spending must not increase the on-budget deficit (or reduce an on-budget surplus) over the five years covered by the budget resolution, and over the following five years as well. Legislation violating this requirement would be subject to a point of order that could be overridden by a three-fifths vote of the House. The RSC provision exempts Social Security legislation from this requirement. The RSC budget does not require tax-cut legislation to meet any kind of fiscal responsibility test.
- ***Revenue Increases Cannot Be Used to Comply With Budget Allocations*** — The RSC plan prohibits committees from using increases in revenues or offsetting collections to comply with the budget resolution allocations and aggregate totals.
- ***Dynamic Scoring of Revenue Legislation*** — The RSC plan instructs the Joint Committee on Taxation to use “realistic scoring” which would take into account the macroeconomic effects of tax cuts when determining their cost. However, the Congressional Budget Office, the Joint Committee on Taxation, and other non-partisan analysts have produced work showing that the macroeconomic effects of tax cuts are ambiguous.
- ***Cuts in Mandatory Spending Directed Toward Tax Cuts*** — Under the RSC plan, when the House approves legislation that would result in a net reduction in mandatory spending, the applicable committee spending allocation is reduced by an equivalent amount. This provision would penalize committees for finding budget savings because they would lose the flexibility to use those savings later in the year to pay for other program improvements in their jurisdiction. The RSC plan also provides that amendments cutting mandatory spending approved by the House can be credited toward further tax cuts by reducing the revenue totals in the budget resolution. The RSC plan sets forth a similar process with respect to House-approved amendments to appropriations bills that reduce discretionary funding.